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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

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Mr. William R. MacDougall
Executive Director
Advisory Commission on
Intergovernmental Relations AG 000431
Washington, D.C. 20575

DEC 14 1973

Dear Mr. MacDougall:

In accordance with your request of July 20, 1972, we have completed our review of the financial operations of the Advisory Commission on Intergovernmental Relations for the fiscal year ended June 30, 1973, and the payroll and leave operations for the 8-month period ended September 1, 1973. Our review included an examination and verification of the time, pay, and leave records, a limited test of the other types of financial transactions entered into by the Commission, and an evaluation of the administrative procedures and internal controls under which these transactions are processed.

The purpose of this letter is to confirm the matters discussed at our meeting of October 4, 1973. At that time we noted that the Commission (1) had not implemented some segments of its approved accounting manual and (2) did not have sufficient controls to prevent the incorrect accumulation of employees' leave, and the issuance and distribution of erroneous paychecks. In both cases you advised that appropriate corrective actions either have been or will be taken by the Commission. Each of these matters is discussed separately below.

THE COMMISSION'S ACCOUNTING
SYSTEM SHOULD BE IMPLEMENTED

The Commission's accounting system was approved by the Comptroller General on June 8, 1972. Although this system would provide information to meet the Commission's needs, we observed that several major segments of the system had not been implemented.

General ledger should be maintained

The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies requires that accounting systems provide for prompt preparation of financial reports which clearly disclose significant

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financial facts about agency operations and activities. These reports should be prepared and issued as often as necessary to be of maximum use to management officials and to meet prescribed external requirements.

The Commission's accounting manual states that budgetary control accounts will be established in the general ledger to account for appropriations and trust fund receipts. It further states that these general ledger accounts will be the supporting element for reports for Commission management purposes and for external reporting.

We found that the general ledger has not been maintained for more than a year and a half. Members of your staff have agreed to begin maintaining the general ledger as prescribed in your approved accounting manual.

Property records should be maintained

The need to adequately account for property is based on the fact that public funds are invested in these resources, therefore, responsible management officials must be held accountable for these assets. Congress has specifically recognized this need by enacting into law definite requirements regarding property control. The property accounting system provided for in your accounting manual appears to include all the necessary procedures to fulfill these requirements and insure reliable property accounting if correctly implemented. This manual provides for establishing the value of all fixed assets, recording the assets in the books of account, recording depreciation annually, and verifying the books of account with physical inventories.

We found that the Commission did maintain an informal record of its office equipment. However, this record has not been integrated into the Commission's books of account. Moreover, the Commission did not maintain any record of other types of property such as furniture and fixtures.

Other Commission procedures which should be followed

During our review we noted that the following procedures prescribed in the Commission's accounting manual were not routinely followed.

- Periodic unannounced audits of imprest funds were neither taken nor the fund balances reconciled to the books of account.

--Adequate segregation of duties does not exist because the accountant controls and inventories portions of the Commission's equipment.

--In four cases payments for publications were made without an invoice indicating that goods were received.

We also noted that unissued airline tickets are kept in an unlocked desk. Considering the potential value of these tickets we feel that they should be kept in a secure location to avoid possible misuse.

Agency actions taken or planned

During our meeting of October 4, 1973, you advised that the Commission had begun preparing the general ledger to provide budgetary control of appropriations and trust fund receipts and has revised its procedures to assure that all goods are received before payment is made. In addition, you advised that the Commission was in the process of (1) implementing a property accounting system, (2) providing for unannounced audits of imprest funds and a secure location for airline tickets, and (3) redefining staff responsibility to provide for segregation of duties with respect to inventorying and maintaining of records for the Commission's equipment.

ADDITIONAL PAYROLL AND LEAVE CONTROLS NEEDED

In our review of the payroll and leave records of 38 Commission employees we noted errors in the records of 10 employees. These errors, which are summarized below, had a total value of about \$2,750.

	<u>Number of occurrences</u>	<u>Overstated</u> <u>Pay</u>	<u>Leave</u>	<u>Understated</u> <u>leave</u>
Errors in computing rates of pay	1	\$2,400		
Errors in calculating amounts of insurance deductions	3	43		
Errors due to accruing leave for partial periods	3		\$144	
Errors in leave category changes	3		40	
Errors in calculation of lump-sum payments	<u>1</u>			\$124
	<u>^a11</u>	<u>\$2,443</u>	<u>\$184</u>	<u>\$124</u>

^aTwo of these errors involved one employee

We believe these errors occurred because (1) the accountant and the administrative officer did not have direct access to pay and leave regulations and (2) the Commission did not have any procedure to verify employee pay rate computations. In addition, we noted that the Commission did not use predetermined control totals to verify the processing of its payroll.

Pay and leave regulations
should be maintained by the Commission

During our review we noted three specific leave regulations which the Commission incorrectly interpreted. Specifically, the Commission (1) allowed accrual of leave for partial pay periods, (2) increased the rate of accrual of annual leave one pay period prior to the time authorized, and (3) failed to pay an employee for a holiday which was within the lump-sum annual leave projection period. In discussing these errors we were told that the Commission does not have a Federal Personnel Manual. When questions regarding these matters arose, the administrative officer received verbal instructions from the General Services Administration. However, these instructions were either erroneous or were not interpreted correctly.

We believe that the Commission should not rely on verbal instructions, but rather should have direct access to published Government regulations, and that appropriate personnel within the Commission should have sufficient knowledge of these regulations to accurately determine employee entitlements.

Payroll changes should
be independently verified

As you know, your original request to seek assistance from this office resulted from your discovery of a \$2,400 salary overpayment to a Commission employee. We found that this overpayment was caused by the establishment of an incorrect hourly rate and the absence of a procedure to independently verify the rate calculation. The erroneous rate was used for the 13 pay periods ending July 7, 1973, resulting in an overpayment of about \$2,400.

In order to detect this type of clerical error we believe that any change in an employee's pay rate or deductions should be verified prior to the time the data is used. This should reduce the possibility of errors of this type occurring.

Predetermined control totals should
be used to verify payroll calculations

An important control which guards against the issuance of erroneous checks in processing a payroll is the use of predetermined control totals to verify the accuracy of data processed in the preparation of regular payrolls. The GAO Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 15.2) recommends the use of predetermined control totals as an effective method of verifying the accuracy of payroll data.

When predetermined control totals are used, arithmetic totals are taken before data are introduced into the system for processing. Corresponding totals are accumulated independently during the data processing operation. These independently accumulated totals are then compared with, and must be equal to, the predetermined control totals. Unequal totals indicate that all data were not processed or that the data were not processed correctly. Appropriate action can then be taken to identify and correct errors before any further processing is done.

Agency actions taken or planned

At our meeting of October 4, 1973, you advised that the Commission had begun adjusting employee leave and pay records to correct the specific errors noted during our review. In addition, you advised that the Commission would (1) obtain copies of appropriate pay and leave regulations and assure that the administrative officer had a working knowledge of these regulations, (2) establish procedures to individually verify pay rate computations, and (3) verify the accuracy of its total payroll through the use of predetermined control totals.

OVEROBLIGATION OF THE COMMISSION'S
FISCAL YEAR 1972 APPROPRIATION

During our meeting of October 4, 1973, we also noted that the fiscal year 1972 appropriation was overobligated by more than \$18,500. The details of this matter will be discussed in a separate report to the Honorable Robert E. Merriam, Chairman, Advisory Commission on Intergovernmental Relations. In addition, we have provided the Chairman with a copy of this letter to keep him advised of the positive measures taken or planned by the Commission.

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We wish to acknowledge the courtesies and cooperation extended to our representatives during our review. We will appreciate your comments and advice concerning the matters discussed in this report.

Sincerely yours,

H. L. Krieger

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Regional Manager



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The Honorable Robert E. Merriam
Chairman, Advisory Commission on
Intergovernmental Relations

Dear Mr. Merriam:

At the request of the Executive Director, the General Accounting Office has conducted a review of the financial operations of the Advisory Commission on Intergovernmental Relations. The results of this audit have been brought to the attention of the Executive Director. For your information, we are enclosing a copy of our letter to him.

We appreciate the courtesies and cooperation extended to our representatives during this review.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager

Enclosure